

Message Text

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C O N F I D E N T I A L STATE 005877

FOR DEP ASST SEC HEGINBOTHAM

FOLLOWING TELEGRAM FROM KUALA LUMPUR DATED JANUARY 4, 1978
SENT SECSTATE WASHDC INFO BANGKOK, JAKARTA, LA PAZ, LONDON
IS REPEATED TO YOU: QUOTE

C O N F I D E N T I A L KUALA LUMPUR 0071

E.O.11652: GDS
TAGS: EMIN, EGEN, MY
SUBJECT: UGS. TIN POLICY

REF: 77 LAPAZ 10155

1. WE WELCOME AMBASSADOR BOEKER'S OBSERVATIONS ON U.S. TIN POLICY.
ALTHOUGH THIS ISSUE HAS NOT GENERATED MUCH ACRIMONY TO DATE IN
MALAYSIA BECAUSE OF LOWER PRODUCTION COSTS AND OTHER, MORE
IMPORTANT, COMMODITIES HERE, IT SEEMS TO US THAT OUR PRESENT
COURSE IS LIKELY TO NULLIFY THE HIGHLY FAVORABLE IMPACT HERE
OF OUR DECISION TO JOIN THE ITC AND ANY SIMILAR DECISIONS ON
COMMODITY AGREEMENTS (E.G. RUBBER) IN THE FUTURE.

2. AS WE UNDERSTAND IT, TWO REASONS LIE BEHIND THE MAJOR SHIFT
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IN U.S. COMMODITY POLICY THAT HAS TAKEN PLACE IN ECENT YEARS.
WE NOW BELIEVE THAT COMMODITY STABILIZATION AGREEMENTS MIGHT
WORK, AND IF THEY DO, THE RESULTING STABILIZATION, IF NOT
ACCOMPANIED BY ATTEMPTS TO MAINTAIN AN ARTIFICAIALY
HIGHER PRICE, WILL BE IN OUR INTEREST AS WELL AS THAT OF THE
PRODUCERS. SECONDLY, AS AMBASSADOR BOEKER POINTS OUT, WE
WISH TO SHOW CONCRETE EVIDENCE OF GOOD FAITH IN THE NORTH/

SOUTH DIALOGUE.

3. IN APPARENT CONTRADICTION TO THE ABOVE, WE ARE NOW SEEN BY SOME PRODUCING NATIONS TO BE TRYING TO PREVENT THE ITA FROM WORKING EFFECTIVELY BY INSISTING ON AN UNREALISTICALLY LOW PRICE RANGE DESPITE POWERFUL MARKET SIGNALS, AND TO BE DRAGGING OUR FEET ON OUR BUFFER STOCK CONTRIBUTION.

4. WHILE HIGH TAXES AND OBSTRUCTIVE LAND USE POLICIES IN MALAYSIA MUST HAVE SOME EFFECT, THEY ARE NOT SOLELY RESPONSIBLE FOR WHAT APPEARS TO BE A COMPLETE ABSENCE OF MEDIUM TERM ELASTICITY OF SUPPLY. RATHER, IT SEEMS MORE LIKELY THAT THE GRADUAL DEPLETION OF CHEAPLY ACCESSIBLE RESERVES, AND THE LONG LEAD TIME (ABOUT 5 YEARS) REQUIRED TO PUT NEW DREDGES INTO OPERATION ARE THE ROOT CAUSES OF THE DOWNTREND IN TIN PRODUCTION IN MALAYSIA SINCE 1972. WE MUST ALSO TAKE INTO CONSIDERATION THE GREATLY INCREASED COST OF TIN SUBSTITUTES SUCH AS ALUMINUM AND PLASTIC IN RECENT YEARS AND THE STEADILY INCREASING COST OF INVESTMENT MACHINERY FOR TIN MINING.

5. IN CONCLUSION, WE AGREE THAT IT WOULD BE VERY USEFUL TO GIVE CAREFUL CONSIDERATION TO AN AUTOMATIC OR SEMI-AUTOMATIC SYSTEM FOR DETERMINING BUFFER STOCK RANGES BASED ON TECHNICAL ECONOMIC CRITERIA. CERTAINLY THE PRESENT SITUATION, WITH THE MARKET PRICE REMAINING WELL ABOVE THE PRICE CEILING, THE BUFFER STOCK EXHAUSTED WHILE THE U.S. HAS STILL NOT MADE ITS CONTRIBUTION, CONFIDENTIAL

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AND AL THIS ACCOMPANIED BY A SHORTFALL OF SUPPLY WITH RESPECT TO DEMAND, SERVES NEITHER THE INTERESTS OF THE PRODUCERS NOR THE CONSUMRERS. WITH AN AUTOMATIC, OR SEMI-AUTOMATIC SYSTEM OF PRICING, THE U.S. COULD CONSTRUCTIVELY CONCENTRATE ITS EFFORTS AND INFLUENCE ON PUSHING FOR MORE TIN PRODUCTION RATHER THAN EXPENDING OUR DIPLOMATIC CAPITAL ON TRYING TO HOLD DOWN THE FLOOR PRICE.
ROSENTHAL UNQUOTE VANCE

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